

Message Text

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ACTION ARA-20

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-11 L-03

NSAE-00 NSC-07 PA-04 RSC-01 PRS-01 SP-03 SS-20

USIA-15 AID-20 COME-00 EB-11 FRB-03 TRSE-00 XMB-07

OPIC-12 CIEP-03 LAB-06 SIL-01 OMB-01 AGR-20 STR-08

CEA-02 DRC-01 /191 W

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TAGS: EAGR CI

SUBJ: GOVERNMENT FIXES NEW PRICE FOR WHEAT

1. SUMMARY. GOC HAS ANNOUNCED MINIMUM PRICE AT WHICH EMPRESA DE COMERCIO AGRICOLA (ECA) WILL PURCHASE WHEAT EFFECTIVE JANUARY 1 WILL BE E0.240,000 PER METRIC TON. PRICE SHOULD ENCOURAGE PLANTCNG FOR THE SPRING WHEAT CROP. PRICES FOR SUGAR BEETS, EDIBLE OIL SEEDS, CORN, OATS AND BARLEY SHOULD ALSO INCREASE AS A RESULT OF INCREASED SUPPRT WHEAT PRICE. WHILE GOC INTENTION IS TO MINIMIZE INTERVENTION IN FREE MARKET ECONOMY, IT RECOGNIZES NEED TO PROVIDE TEMPORARY PRICE GUARANTEES TO STIMULATE AGRICULTURAL PRODUCTION. END SUMMARY.

2. GOC HAS ANNOUNCED THAT STARTING JANUARY 1 IT WILL OFFER TO PURCHASE WHEAT AT E0.24,000 PER METRIC QUINTAL (100 KILOGRAMS). THE ANNOUNCED PRICE LOOKS ATTRACTIVE TODAY, AND WHILE SOME OBSERVERS THINK NEW PRICE WILL NOT MORE THAN EQUAL PRODUCTION COSTS BY JANUARY, IT SHOULD SERVE AS AN INCENTIVE TO INCREASE PLANTING OF SPRING WHEAT.

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3. PRICE QUOTED IS FLOOR PRICE AT WHICH GOVERNMENT

AGENCY ECA WILL OFFER TO PURCHASE. IT IS NOT YET KNOWN AT WHAT PRICE ECA WILL SELL TO MILLS, BUT IF EXPERIENCE WITH CORN IS GUIDE, ECA WILL ENCOURAGE MILLERS TO BUY DIRECTLY FROM FARMERS, EVENTUALLY PEGGING ITS OWN SALES PRICE TO LEVEL ESTABLISHED BY MARKET. IN CASE OF WHEAT, ECA SALE PRICE MAY ALSO TAKE INTO ACCOUNT PRICE PAID FOR IMPORTED WHEAT.

4. PRICES SET FOR WHEAT AFFECT PRICES OFFERED FOR OTHER COMMODITIES, GIVING ADDITIONAL INCENTIVES TO PRODUCTION. GOVERNMENT AGENCY WHICH PURCHASES SUGAR BEETS OFFERS PRICE ABOUT 30 PERCENT THAT OF WHEAT. COMMITTEE (COMARSA) WHICH PURCHASES EDIBLE OIL SEEDS ALSO SETS PRICE IN RELATION TO WHEAT PRICE. SIMILAR THOUGH LESS DIRECT RELATIONSHIP EXISTS BETWEEN PRICE OF WHEAT AND THAT OF CORN, OATS AND BARLEY.

5. COMMENT. STRATEGY OF PROVIDING ECONOMIC INCENTIVES TO AGRICULTURAL SECTOR HAS LONG BEEN SUGGESTED BY ECONOMISTS AND INTERNATIONAL FINANCIAL INSTITUTIONS. POLICY WAS ACCEPTED SOON AFTER PRESENT GOC TOOK POWER, AND WAS IMPLEMENTED BY ALLOWING MOST PRICES TO RISE TO FREE MARKET LEVELS. GOC IS TRYING TO MINIMIZE INTERVENTION IN THE ECONOMY BUT REALIZES NEED TO GUARANTEE FUTURE PRICES FOR SOME CROPS. INITIAL 1974-75 WHEAT CROP GUARANTEE WAS FOR E0.120,000 PER METRIC TON, WHICH WAS ANNOUNCED IN APRIL PRIOR TO PLANTING SEASON FOR WINTER WHEAT CROP. JUNE RAIN STORMS PREMATURELY TERMINATED WINTER WHEAT PLANTINGS CAUSING SHORTFALL WHICH COULD BE MADE UP IN SPRING WHEAT HARVEST. NEW COMMITMENT OF E0.240,000 PER METRIC TON STARTING NEXT JANUARY IS DESIGNED TO GIVE ADDITIONAL INCENTIVE TO PLANTING FOR SPRING WHEAT CROP (TRADITIONALLY ABOUT 35 PERCENT OF TOTAL WHEAT HARVEST). TIMING OF OFFER IS IMPORTANT BECAUSE SPRING PLANTING BEGINS IN AUGUST AND RUNS TO EARLY NOVEMBER. THIS IS MINIMUM PRICE WHICH COULD BE INCREASED.
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